

***COLORADO LOTTERY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION***

**INCLUDING STATEMENT OF LOTTERY REVENUES,
PRIZE DISBURSEMENTS AND OTHER EXPENSES**

(UNAUDITED)

FOR THE TWO (2) MONTHS ENDED

AUGUST 31, 2017

COLORADO LOTTERY FINANCIAL STATEMENTS (UNAUDITED)

DISTRIBUTION

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| Mr. Michael Hartman | Executive Director, Department of Revenue |
| Mr. Brendon Reese | Interim Director, Colorado Lottery |
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STATE OF COLORADO

COLORADO LOTTERY DIVISION

Department of Revenue

Headquarters

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Pueblo, CO 81003
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John Hickenlooper
Governor

Mike Hartman
Executive Director

Brendon Reese
Interim Lottery
Director

December 13, 2017

Members of the Lottery Commission and
Mr. Brendon Reese, Interim Lottery Director

Pursuant to CRS 24-35-204, the Colorado Lottery is required to furnish monthly, "a complete statement of lottery revenues, prize disbursements and other expenses" (the financial statements).

The attached financial statements have not been audited.

The financial statements presented for the two months ended August 31, 2017 have been prepared in accordance with generally accepted accounting principles, using established accounting and internal control procedures. These procedures support the production of reliable financial statements. As with any system of accounting and internal control procedures, there are inherent limitations, and the procedures cannot be relied upon to completely eliminate the occurrence of discrepancies, errors or omissions, but should reduce the risk to a relatively low tolerable level.

Respectfully submitted,

A handwritten signature in cursive script that reads "John Caligaris".

John Caligaris
Controller, Colorado Lottery
Colorado Department of Revenue

**COLORADO LOTTERY
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**INCLUDING STATEMENT OF LOTTERY REVENUES
PRIZE DISBURSEMENTS AND OTHER EXPENSES
(UNAUDITED)**

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COLORADO LOTTERY
 FINANCIAL HIGHLIGHTS
 \$ IN MILLIONS
 FOR THE TWO (2) MONTHS ENDED AUGUST 31, 2017 AND 2016

The table included below and the graphs included on page 2 present certain summarized operating results of the Colorado Lottery for the two months ended August 31, 2017 and 2016 and should be read in conjunction with the financial statements presented herein. The graphs included on page 2 are presented for the purpose of demonstrating the Colorado Lottery's compliance with certain statutes that pertain to its operations.

| | For the Two Months Ended August 31, | | | |
|--------------------------------------------|-------------------------------------|-------------------|----------------|-------------------|
| | FY 2018 | | FY 2017 | |
| | Total | Actual Percent | Total | Actual Percent |
| INCOME | | | | |
| Gross Ticket Sales | \$106.26 | | \$97.73 | |
| Nonoperating revenue | 0.17 | | 0.13 | |
| TOTAL INCOME | 106.43 | | 97.86 | |
| LESS: | | | | |
| PRIZES | \$63.15 | 59.4% (1) | \$56.99 | 58.3% (1) |
| RETAILER COMMISSIONS AND BONUSES | \$7.95 | 7.5% (2) | \$7.38 | 7.6% (2) |
| ADMINISTRATIVE COSTS | | | | |
| Ticket Costs and Vendor Fees | 2.21 | | 2.01 | |
| Other Operating Expenses | 3.80 | (4) | 4.79 | |
| TOTAL ADMINISTRATIVE COSTS (Note 3) | 6.01 | 5.6% (3) | 6.80 | 6.9% (3) |
| | 29.32 | | 26.69 | |
| NET CHANGE IN NET ASSETS | (0.02) | | (0.01) | |
| PROCEEDS DISTRIBUTION | \$29.34 | 27.6% (3) | \$26.70 | 27.3% (3) |

Note 1: Percent of gross ticket sales - per C.R.S. 24-35-210 (9) total disbursements for lottery prizes shall be no less than fifty percent of the total revenue accruing from the sale of lottery tickets or shares.

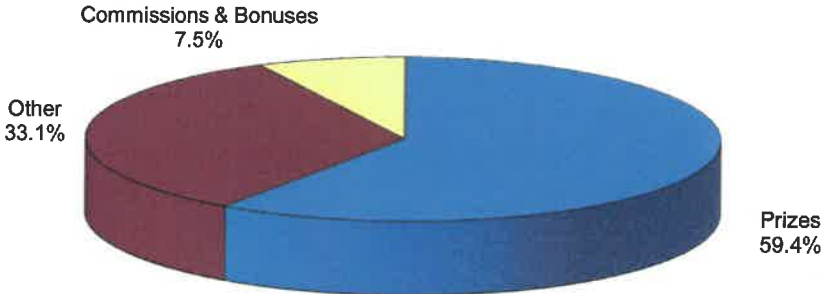
Note 2: Percent of gross ticket sales.

Note 3: Percent of total income.

Note 4: Total operating expenses per the statement of revenues, expenses and changes in fund net position includes unappropriated expenses such as depreciation and accrued annual and sick leave. The actual administrative costs percentage would be slightly lower if they were removed from the calculation.

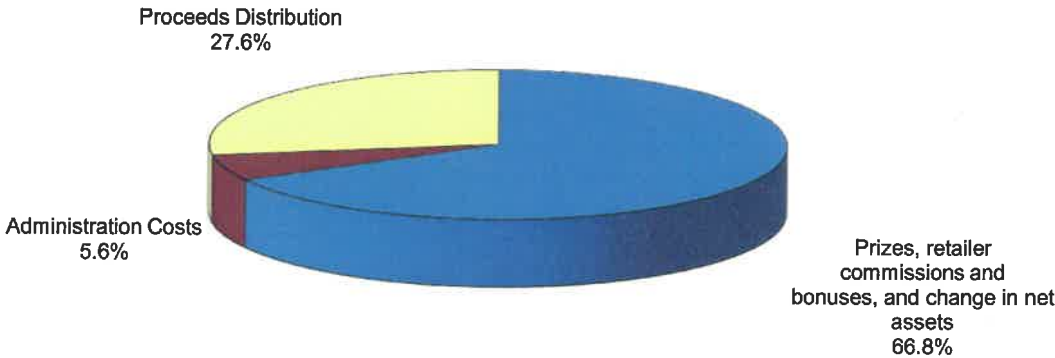
COLORADO LOTTERY
SUPPLEMENT OF FINANCIAL HIGHLIGHTS
FOR THE TWO MONTHS ENDED AUGUST 31, 2017

PERCENT OF GROSS TICKET SALES



To depict compliance with the 50% prize payment statute and the commission/bonus rules.

PERCENT OF TOTAL INCOME



To depict status of administrative expenditures to date.

COLORADO LOTTERY
STATEMENTS OF NET POSITION
AUGUST 31, 2017 AND 2016
(UNAUDITED)

| ASSETS | FY 2018 | FY 2017 |
|------------------------------------------------------------------------------------------------------------|----------------|---------------|
| Current Assets: | | |
| Cash and Investments | \$ 75,144,000 | \$ 65,035,578 |
| Accounts Receivable, net of the allowance for doubtful accounts of \$148,909 in 2017 and \$170,125 in 2016 | 19,433,113 | 26,357,964 |
| Consignment Inventory, at Cost | 127,973 | 123,043 |
| Warehouse Inventory, at Cost | 1,437,034 | 1,287,931 |
| Prepaid Expenses | 247,065 | 257,278 |
| Total Current Assets | 96,389,185 | 93,061,794 |
| Reserve and Restricted Assets: | | |
| Cash and Investments-Operating Reserve | 1,600,000 | 1,500,000 |
| Cash and Investments-Licensed Agent Recovery Reserve Receipts | 528,885 | 445,012 |
| Prepaid Prize Expense with MUSL | 4,168,184 | 4,455,642 |
| Total Reserve and Restricted Assets | 6,297,069 | 6,400,654 |
| Capital Assets: | | |
| Equipment | 5,924,273 | 6,011,671 |
| Leasehold Improvements | 64,711 | 64,711 |
| Less Accumulated Depreciation and Amortization | (5,735,519) | (5,670,779) |
| Total Capital Assets | 253,465 | 405,603 |
| TOTAL ASSETS | \$ 102,939,719 | \$ 99,868,051 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 1,768,784 | \$ 811,784 |
| Prize Liability | 35,081,661 | 36,540,511 |
| Payable to MUSL | 31,848 | 81,169 |
| Wages and Benefits | 40,652 | 35,524 |
| Accrued Annual and Sick Leave | 593 | - |
| Retailer Bonus Liability | 745,793 | 690,682 |
| Funds Available for Distribution | 62,085,583 | 58,616,613 |
| Total Current Liabilities | 99,754,914 | 96,776,283 |
| Long-Term Liabilities: | | |
| Accrued Annual and Sick Leave | 771,309 | 706,001 |
| Expired Warrants Liability | 31,146 | 35,152 |
| Total Long-Term Liabilities | 802,455 | 741,153 |
| TOTAL LIABILITIES | 100,557,369 | 97,517,436 |
| NET POSITION | | |
| Investment in Capital Assets | 253,465 | 405,603 |
| Restricted-Licensed Agent Recovery Reserve | 528,885 | 445,012 |
| Restricted-Operating Reserve | 1,600,000 | 1,500,000 |
| Unrestricted-Other | - | - |
| TOTAL NET POSITION | 2,382,350 | 2,350,615 |
| TOTAL LIABILITIES AND NET POSITION | \$ 102,939,719 | \$ 99,868,051 |

COLORADO LOTTERY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 FOR THE TWO (2) MONTHS ENDED AUGUST 31, 2017 AND 2016
 (UNAUDITED)

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---------------------------------------------------|---------------------|---------------------|
| OPERATING REVENUES | | |
| Gross Ticket Sales | \$ 106,259,794 | \$ 97,736,561 |
| DIRECT OPERATING EXPENSES | | |
| Prize Expense | 63,152,422 | 56,991,078 |
| Retailer Commissions and Bonuses | 7,949,210 | 7,383,902 |
| Cost of Tickets and Vendor Fees | 2,205,202 | 2,014,517 |
| Total Direct Operating Expenses | <u>73,306,834</u> | <u>66,389,497</u> |
| GROSS PROFIT ON SALE OF TICKETS | <u>32,952,960</u> | <u>31,347,064</u> |
| OTHER OPERATING EXPENSES | | |
| Marketing and Communications | 1,140,836 | 2,347,049 |
| Administration Fees Paid to MUSL | 23,340 | 19,466 |
| Wages and Benefits | 1,670,933 | 1,582,828 |
| Professional Services | 35,614 | 22,678 |
| State Agencies Services | 108,737 | 103,129 |
| Indirect Costs Assessments | 125,766 | 126,700 |
| Travel | 12,047 | 21,340 |
| Equipment | 52,283 | 25,689 |
| Depreciation | 32,102 | 32,654 |
| Accrued Annual and Sick Leave | 21,170 | (41,935) |
| Space Rental | 152,294 | 131,992 |
| Rents for Equipment | 4,784 | 5,383 |
| Motorpool Leasing | 57,062 | 46,865 |
| Materials and Supplies | 53,617 | 46,779 |
| Telephone | 32,943 | 42,356 |
| Equipment Maintenance | 87,315 | 66,677 |
| Printing | 4,216 | 11,053 |
| Delivery Expense | 148,197 | 159,443 |
| Other | 41,082 | 38,325 |
| Total Other Operating Expenses | <u>3,804,338</u> | <u>4,788,471</u> |
| OTHER OPERATING REVENUE (EXPENSE) | 22,543 | 33,367 |
| TOTAL OPERATING INCOME | <u>29,171,165</u> | <u>26,591,960</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment Income | 150,486 | 97,051 |
| Funds Distributed for Current Year | - | - |
| Funds Available for Distribution for Current Year | (29,341,588) | (26,701,245) |
| Total Nonoperating Revenues (Expenses) | <u>(29,191,102)</u> | <u>(26,604,194)</u> |
| NET INCOME (LOSS) | <u>\$ (19,937)</u> | <u>\$ (12,234)</u> |
| NET POSITION, BEGINNING OF YEAR | 2,402,287 | 2,362,849 |
| Net Change in Net Position | <u>(19,937)</u> | <u>(12,234)</u> |
| NET POSITION, END OF PERIOD | <u>\$ 2,382,350</u> | <u>\$ 2,350,615</u> |

COLORADO LOTTERY
SCHEDULE OF REVENUE AND COSTS FOR SCRATCH AND JACKPOT GAMES
FOR THE TWO MONTHS ENDED AUGUST 31, 2017
(With Comparative Totals for the Two Months Ended August 31, 2016)

| | Scratch | Scratch \$50 | Jackpot Games | | | | | | | FY 18 | FY 17 |
|-----------------------------------------------------------------|---------------------|----------------|--------------------|---------------------|--------------------|------------------|--------------------|------------------|------------------|---------------------|------------------------------|
| | | | Lotto | Powerball | Cash 5 | Cash 5 EZ Match | Mega Millions | Pick 3 | Lucky For Life | Total | Scratch and Jackpot Games |
| TICKET SALES | \$60,180,852 | \$30,400 | \$4,764,553 | \$25,967,477 | \$3,071,019 | \$840,029 | \$6,983,523 | \$1,978,133 | \$2,443,808 | \$106,259,794 | \$97,736,561 |
| PRIZE EXPENSE | (39,756,342) | (22,790) | (2,427,913) | (12,942,362) | (1,646,160) | (508,478) | (3,415,798) | (917,909) | (1,514,670) | (63,152,422) | (56,991,078) |
| NET REVENUE AFTER PRIZES | <u>20,424,510</u> | <u>7,610</u> | <u>2,336,640</u> | <u>13,025,115</u> | <u>1,424,859</u> | <u>331,551</u> | <u>3,567,725</u> | <u>1,060,224</u> | <u>929,138</u> | <u>43,107,372</u> | <u>40,745,483</u> |
| COMMISSIONS, BONUSES, TICKET COSTS & VENDOR FEES (Note 1) | | | | | | | | | | | |
| Retailer Commission | (4,199,151) | (1,918) | (285,072) | (1,555,329) | (183,767) | (50,279) | (417,798) | (118,274) | (146,132) | (6,957,720) | (6,469,140) |
| Retailer Bonus | (658,076) | (338) | (41,352) | (165,747) | (31,418) | (9,285) | (45,143) | (18,145) | (21,986) | (991,490) | (914,762) |
| Cost of Tickets Sold | (438,141) | (2,843) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | (440,984) | (409,774) |
| Telecomm Reimbursements | 74,963 | 38 | 5,935 | 32,346 | 3,825 | 1,046 | 8,699 | 2,464 | 3,044 | 132,360 | 133,215 |
| Vendor Fees | (1,127,980) | (565) | (80,008) | (430,471) | (51,142) | (13,514) | (118,790) | (32,493) | (41,615) | (1,896,578) | (1,737,958) |
| TOTAL | <u>(6,348,385)</u> | <u>(5,626)</u> | <u>(400,497)</u> | <u>(2,119,201)</u> | <u>(262,502)</u> | <u>(72,032)</u> | <u>(573,032)</u> | <u>(166,448)</u> | <u>(206,689)</u> | <u>(10,154,412)</u> | <u>(9,398,419)</u> |
| GROSS PROFIT ON SALE OF TICKETS | <u>\$14,076,125</u> | <u>\$1,984</u> | <u>\$1,936,143</u> | <u>\$10,905,914</u> | <u>\$1,162,357</u> | <u>\$259,519</u> | <u>\$2,994,693</u> | <u>\$893,776</u> | <u>\$722,449</u> | <u>\$32,952,960</u> | <u>\$31,347,064</u> |
| AVERAGE DAILY TICKET SALES | <u>\$970,659</u> | <u>\$490</u> | <u>\$76,848</u> | <u>\$418,830</u> | <u>\$49,533</u> | <u>\$13,549</u> | <u>\$112,637</u> | <u>\$31,905</u> | <u>\$39,416</u> | <u>\$1,713,868</u> | <u>\$1,576,396</u> |

Note 1: Administrative costs of Lottery operations, including wages, advertising and other expenses are not shown.

COLORADO LOTTERY
SCHEDULE OF PERCENT OF PRIZE EXPENSE TO GROSS TICKET SALES
FOR THE TWO MONTHS ENDED AUGUST 31, 2017

| | Scratch | Scratch \$50 | Lotto | Powerball | Cash 5 | Cash 5 EZ Match | Mega Millions | Pick 3 | Lucky For Life | FY 18 | FY 17 |
|------------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|---------------|----------------|---------------|---------------|
| | | | | | | | | | | Total | Total |
| Prize Expense | \$39,756,342 | \$22,790 | \$2,427,913 | \$12,942,362 | \$1,646,160 | \$508,478 | \$3,415,798 | \$917,909 | \$1,514,670 | \$63,152,422 | \$56,991,078 |
| (/)/Ticket Sales | 60,180,852 | 30,400 | 4,764,553 | 25,967,477 | 3,071,019 | 840,029 | 6,983,523 | 1,978,133 | 2,443,808 | \$106,259,794 | 97,736,561 |
| Prize % | <u>66.06%</u> | <u>74.97%</u> | <u>50.98%</u> | <u>49.84%</u> | <u>53.60%</u> | <u>60.53%</u> | <u>48.91%</u> | <u>46.40%</u> | <u>61.98%</u> | <u>59.43%</u> | <u>58.31%</u> |

COLORADO LOTTERY
BUDGET STATUS
FOR THE TWO MONTHS ENDED AUGUST 31, 2017

| | FY18 Budget (Note 1) | Amount Expended (Note 3) | Amount Available | Percent Expended (Note 2) |
|---------------------------------------------------------------|----------------------------|--------------------------------|----------------------|---------------------------------|
| Personal Services (Includes AED, SAED, Health & Life, STD) | \$11,473,454 | 1,690,668 | \$9,782,786 | 14.7% |
| Worker's Compensation | 84,744 | 14,125 | 70,619 | 16.7% |
| Operating | 1,203,156 | 225,666 | 977,490 | 18.8% |
| Variable Vehicle | 170,381 | 26,361 | 144,020 | 15.5% |
| Leased Space | 905,968 | 150,762 | 755,206 | 16.6% |
| Leased Space-Grand Junction | 7,103 | 1,025 | 6,078 | 14.4% |
| Risk Management | 33,004 | 5,501 | 27,503 | 16.7% |
| Vehicle Lease Payments | 162,350 | 27,038 | 135,312 | 16.7% |
| Travel | 113,498 | 12,047 | 101,451 | 10.6% |
| Marketing, Communications & Sales | 14,700,000 | 1,131,836 | 13,568,164 | 7.7% |
| Payments to Other Agencies | 239,410 | 1,224 | 238,186 | 0.5% |
| Legal Services | 60,739 | 10,123 | 50,616 | 16.7% |
| Indirect Costs Assessments | 754,590 | 125,766 | 628,824 | 16.7% |
| Ticket Costs-Scratch | 6,578,000 | 629,883 | 5,948,117 | 9.6% |
| Research | 250,000 | 9,000 | 241,000 | 3.6% |
| Vendor Fees | 12,571,504 | 1,896,578 | 10,674,926 | 15.1% |
| Prize Payments | 424,104,016 | 63,152,422 | 360,951,594 | 14.9% |
| Retailer Compensation | 52,241,350 | 7,949,210 | 44,292,140 | 15.2% |
| Multi-State Lottery Funds | 177,433 | 23,340 | 154,093 | 13.2% |
| CORE Operations | 61,771 | 10,295 | 51,476 | 16.7% |
| OIT Payments | 584,342 | 97,390 | 486,952 | 16.7% |
| TOTAL | <u>\$526,476,813</u> | <u>\$77,190,260</u> | <u>\$448,799,601</u> | <u>14.66%</u> |

FY18 Staffing - FTE - (Note 4) 117.10 (Appropriated) 115.50 (Projected)

Reconciliation of Expenses per "Statement of Revenues, Expenses and Changes in Net Position" to Budgeted Expenditures:

Expenses Per Statement of Revenues, Expenses and Changes in Net Position

| | |
|---------------------------------------------------------------------------------------|---------------------|
| Prize Expense | 63,152,422 |
| Commissions and Bonuses | 7,949,210 |
| Cost of Tickets & Vendor Fees | 2,205,202 |
| Operating Expenses | 3,804,338 |
| Total Expenses per Statement of Revenues, Expenses and Changes in Net Position | <u>77,111,172</u> |
| Plus: Telecommunications offset classified as revenue | 132,360 |
| Less: Non-appropriated expenses and other adjustments | |
| Depreciation | (32,102) |
| Accrued Annual and Sick Leave | (21,170) |
| Loss on Disposal of Equipment classified as revenue | |
| Sub-Total | 77,190,260 |
| Plus: Capitalized Fixed Assets | 0 |
| | <u>\$77,190,260</u> |

Note 1 - FY18 budget includes Lottery Long Bill and transfers from the Department of Revenue and anticipated supplemental funding.

Note 2 - Percent of fiscal year elapsed through August 31, 2017 is 16.7%.

Note 3 - Amount expended includes expenditures for both capitalized and non-capitalized equipment.

Note 4 - The Governor's budget office has informed departments that the appropriated FTE can be exceeded by 10% for FY 2018